The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2006: budgetary surplus of $0.4 billion

There was a budgetary surplus of $0.4 billion in October 2006, compared to a $1.6-billion surplus in October 2005. Revenues decreased by $0.2 billion, or 1.0 per cent, reflecting both the goods and services tax (GST) rate reduction and a number of one-time factors affecting income tax revenues. Program expenses increased by $1.0 billion, or 7.0 per cent, reflecting increases in transfer payments and departmental operating expenses. Transfer payments, which account for about two-thirds of total program expenses, increased by $0.6 billion, or 6.3 per cent. Public debt charges were down $19 million.

April to October 2006: budgetary surplus of $5.8 billion

For the first seven months of the 2006–07 fiscal year, the budgetary surplus is estimated at $5.8 billion, down $0.7 billion from the $6.5-billion surplus posted in the same period of 2005–06. Revenues were up $5.4 billion, or 4.4 per cent, reflecting solid growth in income tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up $6.0 billion, or 6.2 per cent, due to both higher transfers and other program expenses. This includes transfers to other levels of government, which were up $1.5 billion, or 6.9 per cent. Public debt charges were up $0.1 billion.

October 2006

There was a budgetary surplus of $0.4 billion in October 2006, compared to a $1.6-billion surplus in October 2005.

Budgetary revenues declined by $0.2 billion, or 1.0 per cent, to $18.1 billion.

- Personal income tax receipts rose just $41 million, or 0.5 per cent, in October, largely due to two one-time factors. First, the October results include the accrual of the costs pertaining to the first 10 months of the increase of the age credit introduced in the October 31 Tax Fairness Plan ($270 million, retroactive to January 1, 2006). Secondly, there were two fewer large processing days for payroll deductions in October 2006 compared to October 2005.
- Corporate income tax revenues increased $0.1 billion, or 2.6 per cent. This increase was slower than in previous months. Corporate income tax revenues can be volatile on a month-to-month basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place several years prior, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—fell $0.1 billion, or 15.6 per cent, reflecting the high level of receipts reported at this time last year.
- Excise taxes and duties were down $0.5 billion, due to a 14.9-per-cent drop in GST revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.

- EI premium revenues declined by 8.5 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose $0.4 billion, or 25.7 per cent. This revenue stream is volatile on a monthly basis. The large gain in October follows a decline of 8.9 per cent in September and an increase of 16.7 per cent in August.

Program expenses in October 2006 were $14.9 billion, up $1.0 billion, or 7.0 per cent, from October 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments increased $0.6 billion, or 6.3 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.3 billion, or 7.0 per cent. Elderly benefits increased 4.0 per cent. EI benefit payments decreased 1.3 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up $0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down $0.1 billion, or 1.9 per cent.
- Subsidies and other transfers increased by $0.3 billion, or 23.8 per cent, reflecting in part increased agricultural assistance announced in Budget 2006.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased $0.4 billion, or 8.4 per cent, reflecting increases across a number of departments.

Public debt charges decreased $19 million.

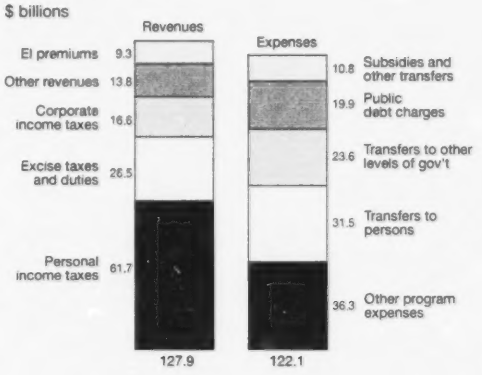
April to October 2006

In the first seven months of the 2006–07 fiscal year, there was a budgetary surplus of $5.8 billion, $0.7 billion less than the $6.5-billion surplus reported for the same period of 2005–06.

Budgetary revenues through the first seven months of the fiscal year were up $5.4 billion, or 4.4 per cent, to $127.9 billion.

- Personal income tax revenues were up $5.1 billion, or 9.0 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.

Revenues and expenses
(April to October 2006)



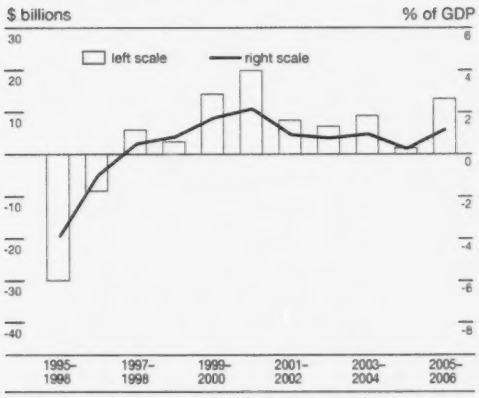
- Corporate income tax revenues rose $1.6 billion, or 10.4 per cent, reflecting a higher corporate instalment payment base. This, in turn, reflects profit growth in 2005 and continued growth in corporate profitability this year. The corporate results to date are not indicative of the eventual outcome for the fiscal year as a whole. Roughly half of corporate income tax revenues comes from corporations with December year-ends, which results in as much as one-third of total corporate receipts being received during the February-to-March settlement period of the fiscal year. Consequently, results for even the first 10 months of the fiscal year can differ markedly from the final, full-year outcome.
- Other income tax revenues rose $0.1 billion, or 5.2 per cent.
- Excise taxes and duties declined by $1.4 billion, or 4.9 per cent, mainly due to a $1.4-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by $0.1 billion, or 1.6 per cent. Customs import duties rose $0.1 billion, or 6.4 per cent, while revenues from the Air Travellers Security Charge were $7 million higher.
- EI premium revenues declined by 7.3 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues were up $0.7 billion, or 6.7 per cent.

Program expenses in the April-to-October 2006 period were $102.2 billion, up $6.0 billion, or 6.2 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.1 billion.

Transfer payments, which account for about two-thirds of total program expenses, increased by $3.6 billion, or 5.8 per cent.

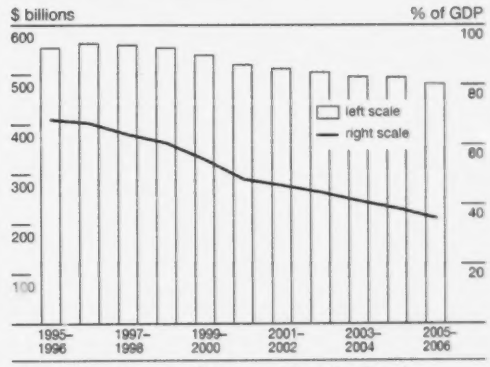
- Transfers to persons grew by 4.7 per cent. Elderly benefits were up 4.8 per cent while EI benefits were down 4.4 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits, in that province, effective January 1, 2006. Children's benefits increased by 17.7 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Transfers to other levels of government were up $1.5 billion, or 6.9 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.7 billion, or 6.8 per cent, reflecting increases in transfer payments across a number of departments, most notably Agriculture and Agri-Food Canada.

Other program expenses increased by $2.3 billion, 6.9 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 0.7 per cent, due mainly to an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $2.9 billion for April to October 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets.

The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $2.9 billion in the April-to-October period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from an $8.1-billion requirement in the same period of 2005–06. The decrease in the net requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06, as well as an increase in the financial source from foreign exchange activities.

With a budgetary surplus of $5.8 billion and a net requirement of $2.9 billion from non-budgetary transactions, there was a financial source of $2.9 billion in the first seven months of 2006–07 compared to a financial requirement of $1.6 billion in the same period of 2005–06.

Net financing activities down $17.4 billion

The Government used this financial source of $2.9 billion and a reduction in its cash balances of $14.5 billion to reduce its market debt by $17.4 billion by the end of October 2006, largely through a reduction of treasury bills and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at $3.4 billion.

Table 1
Summary statement of transactions

	October		April to October	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	18,325	18,145	122,499	127,877
Expenses				
Program expenses	-13,877	-14,851	-96,199	-102,158
Public debt charges	-2,882	-2,863	-19,799	-19,941
Budgetary balance (deficit/surplus)	1,566	431	6,501	5,778
Non-budgetary transactions	-281	-622	-8,067	-2,918
Financial source/requirement	1,285	-191	-1,566	2,860
Net change in financing activities	-412	134	-11,972	-17,393
Net change in cash balances	873	-57	-13,538	-14,533
Cash balance at end of period			3,620	3,426

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	October			April to October		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,604	8,645	0.5	56,621	61,692	9.0
Corporate income tax	2,199	2,256	2.6	15,069	16,635	10.4
Other income tax	411	347	-15.6	2,341	2,463	5.2
Total income tax	11,214	11,248	0.3	74,031	80,790	9.1
Excise taxes and duties						
Goods and services tax	3,441	2,930	-14.9	19,991	18,584	-7.0
Customs import duties	315	334	6.0	1,998	2,125	6.4
Sales and excise taxes	755	710	-6.0	5,661	5,568	-1.6
Air Travellers Security Charge	26	30	15.4	206	213	3.4
Total excise taxes and duties	4,537	4,004	-11.7	27,856	26,490	-4.9
Total tax revenues	15,751	15,252	-3.2	101,887	107,280	5.3
Employment insurance premiums	1,003	918	-8.5	10,006	9,276	-7.3
Other revenues	1,571	1,975	25.7	10,606	11,321	6.7
Total budgetary revenues	18,325	18,145	-1.0	122,499	127,877	4.4

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	October			April to October		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,425	2,521	4.0	16,818	17,617	4.8
Employment insurance benefits	1,136	1,121	-1.3	7,940	7,594	-4.4
Children's benefits	766	987	28.9	5,369	6,319	17.7
Total	4,327	4,629	7.0	30,127	31,530	4.7
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	11,083	11,748	6.0
Canada Social Transfer	685	708	3.4	4,798	4,958	3.3
Total	2,268	2,386	5.2	15,881	16,706	5.2
Fiscal transfers	1,045	1,097	5.0	7,447	7,731	3.8
Canada's cities and communities	213	0	n/a	394	306	-22.3
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-242	-262	8.3	-1,678	-1,828	8.9
Total	3,284	3,221	-1.9	22,044	23,565	6.9
Subsidies and other transfers						
Agriculture and Agri-Food	130	265	103.8	735	1,047	42.4
Foreign Affairs and International Trade	-38	139	n/a	1,207	1,122	-7.0
Health	98	128	30.6	1,010	1,053	4.3
Human Resources and Social Development	134	114	-14.9	913	942	3.2
Indian Affairs and Northern Development	366	373	1.9	2,676	2,754	2.9
Industry	211	246	16.6	1,129	1,117	-1.1
Other	471	433	-8.1	2,407	2,728	13.3
Total	1,372	1,698	23.8	10,077	10,763	6.8
Total transfer payments	8,983	9,548	6.3	62,248	65,858	5.8
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	100	69	-31.0	768	764	-0.5
Canada Mortgage and Housing Corporation	164	209	27.4	1,194	1,183	-0.9
Other	229	267	16.6	1,969	1,977	0.4
Total	493	545	10.5	3,931	3,924	-0.2
Defence	1,237	1,359	9.9	8,291	8,817	6.3
All other departments and agencies	3,164	3,399	7.4	21,729	23,559	8.4
Total other program expenses	4,894	5,303	8.4	33,951	36,300	6.9
Total program expenses	13,877	14,851	7.0	96,199	102,158	6.2
Public debt charges	2,882	2,863	-0.7	19,799	19,941	0.7
Total budgetary expenses	16,759	17,714	5.7	115,998	122,099	5.3

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	October		April to October	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	1,566	431	6,501	5,778
Non-budgetary transactions				
Capital investing activities	-248	-218	-978	-1,042
Other investing activities	-314	-1,314	-2,135	-1,785
Pension and other accounts	347	331	-534	2,886
Other activities				
Accounts payable, receivables, accruals and allowances	710	-202	-7,075	-6,555
Foreign exchange activities	-1,026	535	858	1,792
Amortization of tangible capital assets	250	246	1,797	1,786
Total other activities	-66	579	-4,420	-2,977
Total non-budgetary transactions	-281	-622	-8,067	-2,918
Net financial source/requirement	1,285	-191	-1,566	2,860

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	1,285	-191	-1,566	2,860
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,585	1,467	-4,663	255
Treasury bills	1,000	-1,300	-3,400	-11,900
Canada Savings Bonds	-68	-45	-497	-470
Other	-13	-1	-181	-1,130
Total	-666	121	-8,741	-13,245
Foreign currency borrowings	302	-93	-3,281	-4,022
Total	-364	28	-12,022	-17,267
Cross-currency swap revaluation	3	129	-75	126
Unamortized discounts on debt issues	-53	-17	47	-202
Obligations related to capital leases	2	-6	78	-50
Net change in financing activities	-412	134	-11,972	-17,393
Change in cash balance	873	-57	-13,538	-14,533

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2006	October 31, 2006	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	92,265	-9,167
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	261,389	255
Treasury bills	131,597	119,697	-11,900
Canada Savings Bonds	17,342	16,872	-470
Other	3,102	1,972	-1,130
Subtotal	413,175	399,930	-13,245
Payable in foreign currencies	14,085	10,063	-4,022
Cross-currency swap revaluation account	-2,258	-2,132	126
Unamortized discounts and premiums on market debt	-6,780	-6,982	-202
Obligations related to capital leases	2,927	2,877	-50
Total unmatured debt	421,149	403,756	-17,393
Pension and other accounts			
Public sector pensions	131,062	133,194	2,132
Other employee and veteran future benefits	43,369	44,315	946
Other pension and other accounts	5,493	5,301	-192
Total pension and other accounts	179,924	182,810	2,886
Total interest-bearing debt	601,073	586,566	-14,507
Total liabilities	702,505	678,831	-23,674
Financial assets			
Cash and accounts receivable	82,843	65,698	-17,145
Foreign exchange accounts	40,827	39,035	-1,792
Loans, investments and advances (net of allowances)	41,889	43,674	1,785
Total financial assets	165,559	148,407	-17,152
Net debt	536,946	530,424	-6,522
Non-financial assets	55,447	54,703	-744
Federal debt (accumulated deficit)	481,499	475,721	-5,778

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